

February 25, 2004



Acquisition

DoD Source Approval Process for
Service & Sales, Inc., a Small
Business Manufacturer
(D-2004-055)

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Acronyms

AS	Aerospace Basic Quality System
CAI	Critical Application Item
CSI	Critical Safety Item
DLA	Defense Logistics Agency
ESA	Engineering Support Activity
ISO	International Organization for Standardization
OEM	Original Equipment Manufacturer
SAR	Source Approval Request



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704

February 25, 2004

MEMORANDUM FOR DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Report on DoD Source Approval Process for Service & Sales, Inc.,
a Small Business Manufacturer (Report No. D-2004-055)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Defense Logistics Agency comments were partially responsive. As a result of management comments, we revised Recommendation 4 to the Defense Logistics Agency. We request that the Defense Logistics Agency provide additional comments on Recommendations 1 and 3 by April 26, 2004.

If possible, please send management comments in electronic format (Adobe Acrobat file only) to Audcm@dodig.osd.mil. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Questions should be directed to Henry F. Kleinknecht at (703) 604-9324 (DSN 664-9324) or Mr. Patrick J. Nix at (703) 604-9332 (DSN 664-9332). The team members are listed inside the back cover. See Appendix F for the report distribution.

By direction of the Deputy Inspector General for Auditing:

David K. Steensma

David K. Steensma

Director

Contract Management Directorate

Office of the Inspector General of the Department of Defense

Report No. D-2004-055
(Project No. D2002CH-0095)

February 25, 2004

DoD Source Approval Process for Service & Sales, Inc., a Small Business Manufacturer

Executive Summary

Who Should Read This Report and Why? The small business community and acquisition, logistics, and engineering personnel within DoD should read this report because it concerns procuring spare parts competitively from a qualified women-owned small business manufacturer.

Background. Service & Sales, Inc. has supplied parts to DoD for more than 32 years. Initially, the contractor purchased Government surplus material and resold the material back to the Government as needed. The contractor also served as a supplier for Honeywell International, Inc. (Honeywell) and other original equipment manufacturers. In addition, Service & Sales, Inc. was given permission by Honeywell to bid on Honeywell requirements that were advertised in the commerce business daily. As a result, Service & Sales, Inc. started processing and overhauling material and eventually moved into manufacturing. In 1992, Honeywell filed a lawsuit against Service & Sales, Inc. to reacquire the business Service & Sales, Inc. was then performing. Honeywell asked for documented evidence that authorized the contractor to manufacture the parts. Service & Sales, Inc. provided the requested documentation and filed a counter-lawsuit. Honeywell and Service & Sales, Inc. negotiated a licensing agreement over the next several months to avert the pending court action.

The agreement perpetually licensed Service & Sales, Inc. on a nonexclusive basis to use Honeywell technical data to manufacture certain parts for sale to the Government. The agreement granted Service & Sales, Inc. the right to manufacture 958 base parts and their subcomponent parts for sale to DoD. As part of this agreement, Service & Sales, Inc. was provided access to the latest revisions of the licensed technical data for its use in manufacturing the parts. Honeywell also agreed to provide assistance for the covered parts to include drawing interpretations and test procedures.

The audit was performed in response to a complaint made to the Defense Hotline. The complaint made five allegations that the ability of Service & Sales, Inc. to compete was inhibited for spare parts orders of parts previously supplied to DoD that were included on a licensing agreement with Honeywell. Specifically, the allegations stated that parts for which Service and Sales, Inc. was an approved alternate source had been placed on a sole-source contract with Honeywell, Service & Sales was removed as a potential source because it had not recently supplied the parts, the Defense Logistics Agency (DLA) source approval data was not accurate, DLA was inappropriately removing approved source designations, and Service & Sales, Inc. was inappropriately removed as an approved source for a specific product line. The first three allegations were substantiated, the fourth allegation was partially substantiated, and the fifth allegation was not substantiated. See Appendix C for a discussion of the specific allegations and results of this review.

Results. DLA and the ESAs had not effectively approved Service & Sales, Inc. as an alternate source of supply for 253 of 434 items included on a licensing agreement with Honeywell and 19 of 28 items not included on the licensing agreement but previously supplied to DoD. As a result, DLA was generally procuring the items from the original equipment manufacturer instead of procuring the items competitively and using a small business manufacturer. DLA should take immediate action to reinstate Service & Sales, Inc., as an approved source of supply for items previously manufactured, establish procedures that document why a source is removed from the list of approved manufacturers, and notify the contractor when removed. DLA should also develop, in conjunction with the Service ESAs, consistent and realistic guidance and procedures for reevaluating sources for critical safety items and critical application items and for addressing source approval requirements for items included on licensing agreements with original equipment manufacturers. See the finding for detailed recommendations.

In November 2002, representatives from the Naval Inventory Control Point, Philadelphia performed a site survey at Service & Sales, Inc. to assess the contractor's manufacturing capabilities. Representatives from the Air Force engineering support activities (ESAs) were also in attendance. The group, including members of the audit team, toured the contractor's facility and held discussions with company officials. The group reviewed the licensing agreement and the contractor's quality control system and tested compliance with the stated procedures. The Navy found that Service & Sales, Inc. could manufacture, assemble, and inspect a diverse line of both critical safety items and critical application items. Prior to the site survey, the information that Service & Sales, Inc. provided DLA and the Service ESAs lacked details on the terms of the licensing agreement. As a result, DLA and the Service ESAs were unaware of the level of access that Service & Sales, Inc. had been granted to the parts' technical data. A copy of the Navy site survey can be found in Appendix E.

Management Comments and Audit Response. DLA generally agreed with the recommendations. For items for which the Navy and the Air Force are listed as the only source, DLA agreed to take appropriate action to either reinstate or approve Service & Sales, Inc. as an alternate source of supply. Further, DLA agreed to notify an approved source when they were removed as a source, to use the Joint Aeronautical Commanders Group Memorandum on Management of Aviation Critical Safety Items to revalidate the sources of critical safety items, and to develop, in conjunction with the Service ESAs, guidance to revalidate critical application items and to approve sources for items under acceptable licensing agreements with original equipment manufacturers. Although DLA has established procedures for Service & Sales, Inc. to be approved or reinstated as an approved source for the items that the Navy or the Air Force is listed as the only user, it has not addressed what procedures will be used to approve Service & Sales, Inc. as a source for parts that require the review of multiple Services. Accordingly, we request that DLA provide additional comments on the final report by April 26, 2004. See the Finding section of the report for a discussion of the management comments on the recommendations and our audit response, and the Management Comments section of the report for the complete text of the comments.

Table of Contents

Executive Summary	i
Background	1
Objective	4
Finding	
Source Approval Process for Small Business Manufacturers	5
Appendixes	
A. Scope and Methodology	17
Management Control Program Review	18
B. Prior Coverage	19
C. Hotline Allegations	20
D. Index of Reviewed Parts	22
E. Naval Inventory Control Point, Philadelphia Site Survey Status Report	34
F. Report Distribution	41
Management Comments	
Defense Logistics Agency	43

Background

We performed this audit in response to allegations made to the Defense Hotline. The complaint alleged that Service & Sales, Inc., a woman-owned small business, was inappropriately being denied the ability to compete for orders of parts that were contained in its licensing agreement with Honeywell International, Inc. (Honeywell) because of problems with the process used to approve sources. See Appendix C for a full discussion of the allegations.

Approval Process for New Sources. The Defense Logistics Agency's (DLA) Technical Support Policy and Procedures Deskbook, dated May 10, 2002, establishes procedures for approving alternate sources of supply. Once an offer is received to supply a part from an "unapproved" supplier, a DLA buyer forwards the offer to the appropriate technical specialist for evaluation.

The technical specialist verifies that the offer includes legible and complete copies of drawings, specifications, or other data related to the product being offered. The data submitted must cover design, materials, performance, functions, interchangeability, inspection and testing criteria, and other characteristics of the offered product. The technical specialist also performs a cost benefit analysis and determines if the savings justify incurring the cost to evaluate the offer. Offers for supplying noncritical parts are evaluated within DLA; however, offers for critical parts that include both critical safety items (CSI--items that if damaged will cause loss of aircraft or life of operating personnel and critical application items (CAI)--items that are fundamental to the weapon system performance or items that could impact safety of the operating personnel) must be evaluated by the Service engineering support activities (ESAs) responsible for the part. Multiple ESAs can be responsible for the same parts. The DLA Deskbook states that:

Only those offers that are in the best interest of the Government will be considered. At the time of publication of this document, the minimum savings thresholds for evaluation were \$200 if the item was evaluated locally and an additional \$1,200 for each ESA that must be involved. If the alternate offer savings, do not meet or exceed the threshold, coordinate with the buyer to determine if further evaluation is in the best interest of the Government.

For offers that meet the criteria, a technical specialist evaluates the data provided with the alternate offer and determines if the offeror's product is equal to (identical or physically, mechanically, electrically, and functionally interchangeable) the desired part and meets the minimum needs of the Government. For noncritical parts that are determined to meet the minimum needs of the Government, the technical specialist identifies the quality provisions required to be added to the contract for alternate offers and provides the outcome of his review to the buyer.

For CSIs and CAIs, the technical specialist prepares a DLA Form 339, "Request for Engineering Support," to request source approval. The technical specialist then forwards a Source Approval Request (SAR) package to each appropriate

ESA for review and approval, along with the offeror's technical data and the \$1,200 fee DLA is required to pay for each part reviewed.

Public Law on Reevaluation Requirements. In 1988, Public Law 100-456, section 805, establishes the requirement for qualifying the suppliers of parts that are critical to the operation of aircraft and ships. Specifically, the public law inserted the following section into title 10 of the United States Code.

Section 2383, Procurement of Critical Aircraft and Ship Spare Parts: Quality Control. In procuring any spare or repair part that is critical to the operation of an aircraft or ship, the Secretary of Defense shall require the contractor supplying such part to provide a part that meets all appropriate qualification and contractual quality requirements as may be specified and made available to prospective offerors. In establishing the appropriate qualification requirements, the Secretary of Defense shall utilize those requirements, if available, which were used to qualify the original production part, unless the Secretary of Defense determines in writing that any or all such requirements are unnecessary.

In 1996, Public Law 104-106, section 803, repealed section 2383 of title 10 of the United States Code. The House and Senate versions of the bill state the repeal was:

intended to assist the Department of Defense in shifting from reliance on outdated military specifications and standards to the use of modern industrial manufacturing methods that would ensure quality in critical spare parts.

In 2003, Public Law 108-136, section 802, reestablished the requirement for qualifying suppliers. Specifically, the public law required the Secretary of Defense to prescribe in regulations a quality control policy for the procurement, modification, repair, and overhaul of aviation critical safety spare parts that includes the requirement that:

the head of the contracting activity for an aviation critical safety item enter into a contract for the procurement, modification, repair, or overhaul of such item only with a source approved by the design control activity in accordance with section 2319 of title 10, United States Code.

Guidance on Reevaluating Sources for CSIs and CAIs. Naval Air Systems Command Instruction 4200.25D, "Management of Critical Application Items Including Critical Safety Items," June 20, 2002, states that alternate sources for CSIs be reevaluated to ensure sources remain capable of delivering satisfactory items if they have not delivered the specific item within 3 years of an anticipated solicitation or if concerns exist regarding the product quality or either the manufacturing location or process has changed. The instruction gives Navy ESAs the authority to waive or relax the steps necessary for reevaluating a source if deemed appropriate. The Navy instruction does not provide guidance or requirements for reevaluating manufacturers of CAIs. The Air Force does not have guidance that addresses reevaluating manufacturers of either CSIs or CAIs. The Joint Aeronautical Commander's Group, Policy Memorandum, "Management

of Aviation Critical Safety Items,” August 28, 2002, adopts the reevaluation requirement for sources of items critical to aviation safety but fails to establish procedures for reevaluating CAIs.

History of Service & Sales, Inc. Service & Sales, Inc. has supplied parts to DoD for more than 32 years. Initially, the contractor purchased Government surplus material and resold the material back to the Government as needed. The contractor also served as a supplier for Honeywell and other original equipment manufacturers (OEMs). In addition, Honeywell gave Service & Sales, Inc. permission to bid on Honeywell requirements that were advertised in the commerce business daily. As a result, Service & Sales, Inc. started processing and overhauling material and eventually moved into manufacturing. Figure 1 shows one of the product lines that Service & Sales, Inc. manufactures for sale to the Government.



Figure 1. Tube Assembly Product Line.

In 1992, Honeywell filed a lawsuit against Service & Sales, Inc., to reacquire the business Service & Sales, Inc. was then performing. Honeywell asked for documented evidence that authorized the contractor to manufacture the parts. Service & Sales, Inc. provided the requested documentation and filed a counter-lawsuit. To avert the pending court action, Honeywell and Service & Sales, Inc. negotiated a licensing agreement over the next several months.

President’s Small Business Agenda. In March 2002, the President outlined his agenda for small business. Specifically, the President stated that small businesses were “the backbone of the U.S. economy” and, therefore, should have access to Government contracts. The President stated that Government contracting should be accomplished through full and open competition and that large Federal contracts should be broken down or unbundled “whenever practicable” so that small businesses could compete. The President further stated that he wants to eliminate the regulatory barriers to job creation, give small businesses a voice in the complex and confusing Federal regulatory system, and consolidate the eight

civilian agency boards of contract appeals to ease the administrative burden on small businesses. The President also called for tax simplification, regulatory reform, and an expanded Government contracting program that would assist small businesses.

Objective

The audit objective was to determine whether the DoD source approval process effectively approved Service & Sales, Inc. as a potential source of supply for spare parts included on a licensing agreement with Honeywell. We also reviewed the management controls as they relate to our audit objective. See Appendix A for a discussion of the scope, methodology, and management control review related to the objectives.

Source Approval Process for Small Business Manufacturers

DLA and the Service ESAs did not effectively approve Service & Sales, Inc. as an alternate source of supply for 253 of 434 items included on a licensing agreement with Honeywell. In addition, DLA and the Service ESAs did not effectively approve Service & Sales, Inc. as an alternate source of supply for 19 of 28 other items that were previously supplied to DoD. The condition occurred because DLA:

- either improperly removed or never added Service & Sales, Inc. to its list of approved manufacturers for 82 items previously supplied to DoD and 171 items not previously supplied but included on the licensing agreement;
- either improperly removed or never added Service & Sales, Inc. to its list of approved manufacturers for 19 items previously supplied to DoD that were not included on the licensing agreement;
- did not document why Service & Sales, Inc. was removed from its list of approved manufacturers and did not notify the affected parties, including the contractor; and
- in conjunction with the Service ESAs, did not develop adequate and consistent guidance and procedures for either reevaluating sources that were previously approved for CSIs and CAIs or addressing source approval procedures for items on licensing agreements with OEMs.

As a result, DLA was generally procuring the items sole source from the OEM instead of procuring the items competitively and using a small business manufacturer.

Contractor Qualifications and Capabilities

Service & Sales, Inc. manufactures aerospace components and is located in Tempe, Arizona. Service & Sales, Inc. has a perpetual licensing agreement with Honeywell to manufacture thousands of items that are proprietary (sole source) to Honeywell. Service & Sales, Inc. also manufactures CSIs and CAIs for various other OEMs. Service & Sales, Inc.'s quality control system conforms to the International Organization for Standardization (ISO) 9002:94 and Aerospace Basic Quality System (AS) 9000:98 standards. The Performance Review Institute issued the certification on August 17, 2001. The certification was scheduled to be upgraded to ISO 9001:2000 and AS9100 in November 2003. In addition, Government representatives conducted a site survey in November 2002 at the contractor's facility and provided a favorable assessment of the contractor's quality assurance program and manufacturing capabilities.

Licensing Agreement. On March 5, 1993, Service & Sales, Inc. and Honeywell entered into an agreement under which Service & Sales, Inc., became licensed on a nonexclusive basis to use Honeywell technical data to manufacture certain parts for sale to the Government. The agreement granted Service & Sales, Inc. the right to manufacture for sale to DoD 958 base parts and their subcomponent parts. As part of the agreement, the contractor was provided access to the latest revisions of the licensed technical data for manufacturing the parts. Honeywell also agreed to provide assistance for the covered parts, which included drawing interpretations and test procedures. In addition, Honeywell agreed to share its approved source list for subcontracted material with Service & Sales, Inc. No other affiliation between the contractor and Honeywell exists. Honeywell accepts no liability or responsibility for items manufactured by Service & Sales, Inc.

Approved Source of Supply for Other OEMs. Service & Sales, Inc. is an approved supplier of both CSIs and CAIs for various OEMs. The OEMs include: Aerojet, Boeing, Crestview Aerospace, Honeywell, Lockheed Martin, MD Helicopter, Perkin Elmer, Raytheon, Simula Inc., and Talley Defense Systems. Each OEM has its own method for surveying and approving sources. Some use ISO and AS certifications for the basis of their approval process with little additional work. In addition, on July 27, 2001, a representative of Lockheed Martin performed a quality survey at Service & Sales, Inc. and determined that the contractor met the requirements of Military Specification MIL-I-45208A, "Inspection System Requirements," which establishes requirements for contractor inspection systems, and approved Service & Sales, Inc.

Navy Site Survey. In November 2002, representatives from the Naval Inventory Control Point, Philadelphia performed a site survey at Service & Sales, Inc. to assess the contractor's manufacturing capabilities and quality assurance elements to manufacture both CSIs and CAIs. Although prohibited by the Director of Engineering Policy Management, Air Force Materiel Command from taking an active role, representatives from the Air Force ESAs were also in attendance. The group, including members of the audit team, toured the contractor's facility and held discussions with company officials. The group reviewed the licensing agreement and the contractor's quality control system and tested compliance with the stated procedures. Prior to the site survey, the information that Service & Sales, Inc. provided DLA and the Service ESAs lacked details on the specific terms of the licensing agreement. As a result, DLA and the Service ESAs were unaware of the level of access that Service & Sales, Inc. had been granted to the parts' technical data of the OEM. The Navy also performed two successful first article tests and traceability studies. The findings/recommendations from the Navy site survey stated:

Service & Sales, Inc., has demonstrated that they can manufacture, assemble, and inspect a diverse line of both CSI (critical safety item) and CAI (critical application item) items. Their product line includes: Seals, Piston Rings, Tube Assemblies, Diaphragm Assemblies, Solenoid Valves, Cable Assemblies and various Electrical Counters and Shut off Valves. They have demonstrated their ability to manufacture a multiple line of Gas Turbine Accelerator Thermostats as well as Immersion Thermocouples. They also take pride in their ability

to perform a complete functional test of these Thermostats and Thermocouples.

Their manufacturing process was well documented from Contract award to actual Shipping of the finished product. It is the general consensus of the government team members that Service & Sales, Inc., production and engineering capabilities and quality programs are satisfactory. Service & Sales, Inc., shows great pride in their product and workmanship. [emphasis added]

A complete copy of the Navy site survey report is in Appendix E.

Identification as an Alternate Source

DLA and the Service ESAs did not effectively approve Service & Sales, Inc. as an alternate source of supply for 253 of 434 items that were included on a licensing agreement with Honeywell. In addition, 19 of 28 other items not included on the licensing agreement but previously supplied to DoD were not approved. The annual demand for the parts is about \$10.2 million. See Appendix D for information on the criticality of parts, the number of ESAs responsible for each part, and Service & Sales, Inc.'s source approval status. Table 1 and Table 2 summarize the approval status.

Table 1. Approval Status for Items Included on the Service & Sales, Inc. Licensing Agreement with Honeywell				
<u>Item Criticality</u>	<u>Identified as Approved in DLA System</u>			
<u>Previously Supplied</u>	<u>Yes</u>	<u>No</u>	<u>Total</u>	<u>Percent</u>
Critical Safety	7	2	9	77.8
Critical Application	133	69	202	65.8
Noncritical	<u>15</u>	<u>11</u>	<u>26</u>	57.7
Subtotal	155	82	237	65.4
<u>Not Previously Supplied</u>				
Critical Safety	1	0	1	100.0
Critical Application	25	146	171	14.6
Noncritical	<u>0</u>	<u>25</u>	<u>25</u>	0.0
Subtotal	26	171	197	13.2
Total	181	253	434	41.7

Table 2. Approval Status for Items not on Licensing Agreement that have been Previously Supplied to DoD				
<u>Item Criticality</u>	<u>Identified as Approved in DLA System</u>			
<u>Previously Supplied</u>	<u>Yes</u>	<u>No</u>	<u>Total</u>	<u>Percent</u>
Critical Application	8	18	26	30.8
Noncritical	<u>1</u>	<u>1</u>	<u>2</u>	50.0
Total	9	19	28	32.1

Items Included on Licensing Agreement

Items Previously Supplied to DoD. DLA improperly removed or never added Service & Sales, Inc. to the approved manufacturers list for 82¹ parts included on the licensing agreement that it previously supplied to DoD, thus Service & Sales, Inc. was ineligible to receive orders for parts that it had previously supplied. Although DLA representatives could not give specific reasons why Service & Sales, Inc. was removed as an approved source, one of the technical specialists at DLA thought that the removal of Service & Sales, Inc. as an approved source may relate to Navy guidance for reevaluating previously approved sources. Navy guidance requires that sources for CSIs be reevaluated to ensure that sources remain capable of delivering satisfactory items if they have not delivered the specific item within 3 years of an anticipated solicitation or if there are concerns regarding product quality or the manufacturing location or process has changed. However, the Navy guidance does not provide specific procedures for reevaluating sources and did not indicate that a source's approved status should be removed while the source's manufacturing capability is being reevaluated. Further, the Navy guidance applies only to CSIs.

Technical specialists at DLA stated that Service & Sales, Inc. may not have been added to the DLA list of approved manufacturers for items transferred from the Services as part of the consumable item transfer. In August 1991, the Services transferred management of consumable items to DLA. The process was conducted in two phases. The first phase, which ended in November 1995, placed approximately 760,000 items the Services previously controlled under DLA management. The second phase, which occurred between January 1996 and the beginning of 1998 when the Office of the Secretary of Defense declared the consumable item transfer over, placed approximately 152,000 more items under DLA management. Unfortunately, the procedures for transferring and maintaining the documentation that would support source approval were not always effective. As a result, source approval data were either lost, misplaced, or not forwarded to DLA. Consequently, Service & Sales, Inc. was not added to the list of approved manufacturers for items it previously supplied to the Services.

¹ 2 CSIs, 69 CAIs, and 11 noncritical items.

Service & Sales, Inc. previously supplied 54² or 65.8 percent of the 82 parts that were not approved directly to the Services prior to the consumable item transfers. For example, the Air Force procured spur gears (National Stock Number 3020-00-425-6495), a CSI, directly from Service & Sales, Inc. prior to the item transferring to DLA. Specifically, Service & Sales, Inc. supplied 2,607 spur gears to the Air Logistics Center, Oklahoma City, Oklahoma, on two orders received in 1987 and 1988. Service & Sales, Inc. also supplied 135 of the gears in 2002 to DLA (Columbus). Service & Sales, Inc. was identified as an approved source of supply on the 2002 order. However, on a February 19, 2003, a purchase request for 318 items, Service & Sales, Inc. was no longer listed as an approved source of supply. Consequently, Service & Sales, Inc. was ineligible to receive orders for a part it had successfully supplied to DoD on three other occasions (1987, 1988, and more recently in 2002). The technical specialists at DLA could not give specific reasons why Service & Sales, Inc. was removed as an approved source.

In another example, Service & Sales, Inc. supplied wiring harness assemblies (National Stock Number 5995-00-707-8267), a CAI, to the Air Force (San Antonio Air Logistics Center, Texas) in 1984 and 11 times to DLA supply centers (Philadelphia and Richmond) between 1987 and 1998. On the 1998 order, Service & Sales, Inc. was identified as an approved source of supply. However, on a June 28, 2003, purchase request for 38 items, Services & Sales, Inc. was no longer listed as an approved source of supply. Consequently, Service & Sales, Inc. was ineligible to receive orders for a part that it had successfully supplied to DoD 12 times between 1984 and 1998 (768 parts) and was also the only source that supplied the part since 1987. Again, the technical specialists at DLA could not give specific reasons why Service & Sales, Inc. was removed as an approved source but reinstated the contractor as an approved source in July 2003.

Nothing was uncovered that would support that Service & Sales, Inc. should not be approved as a source for these parts. No significant quality problems have been noted with the parts supplied by Service & Sales, Inc. Further, Service & Sales, Inc. is an approved source of supply for other OEMs and its quality control system conforms with ISO and AS standards. The Navy site survey also found that Service & Sales, Inc. had access to the actual drawings and the technical data for the parts and possessed the capability to manufacture the parts to DoD specifications. Thus, DLA needs to take immediate action to reinstate Service & Sales, Inc. as an approved source for the 82 items included on the licensing agreement with Honeywell that it previously supplied to DoD.

Items Not Previously Supplied to DoD. DLA had not added Service & Sales, Inc. to the list of approved manufacturers for 171³ of 197 items included on the licensing agreement that had not been previously supplied to DoD. As previously stated, DLA and the Service ESAs lacked details on the specific terms of the licensing agreement. As a result, DLA and the Service ESAs insisted that Service & Sales, Inc. go through a complete SAR package review to obtain approval for supplying those parts because Service & Sales, Inc. had no documented procurement history with DoD that demonstrated Service & Sales, Inc. was

² 1 CSI, 49 CAIs, and 4 noncritical items.

³ 146 CAIs and 25 noncritical items.

capable of manufacturing the parts to DoD specifications. Complete SAR package reviews require that Service & Sales, Inc., for each part, obtain the drawing and technical data from the OEM, prepare and submit a SAR package, and have the data reviewed and then obtain approval from DLA and each Service ESA responsibility for the critical parts. Service & Sales, Inc. could then submit bids and perhaps receive an order to supply the parts.

Requiring complete SAR package reviews for these parts no longer seems to be warranted. It seems a bit extensive for a contractor using the actual drawings and technical data of the OEM to manufacture the parts. Alternate sources do not generally have access to drawings and technical data of the OEM. Thus, contractors desiring to be an alternate source for items usually must develop their own technical data and drawings. Under those circumstances, wanting to compare the drawings and technical data of an alternate source to that of the OEM makes sense. However, we fail to understand why the Government would want to perform complete SAR package reviews for parts covered by the licensing agreement with Honeywell, because the Government would simply be comparing the actual drawings and technical data of the OEM to the actual drawings and technical data of the OEM. Thus, we see no value in doing this.

Public Law 104-106, section 803, repealed the requirements of section 2383 of title 10 of the United States Code. The intent was to lighten the DoD regulatory requirements by allowing use of modern industrial manufacturing methods for ensuring quality in critical spare parts. Thus, in light of Service & Sales, Inc.'s access to the actual drawings and technical data for the 171 licensed parts and all that is now known about the manufacturing capabilities of Service & Sales, Inc., DLA, in conjunction with the Service ESAs, should develop and use a streamlined process to approve Service & Sales, Inc. as an alternate source of supply for the items.

Item Not Included on Licensing Agreement

DLA either improperly removed or never added Service & Sales, Inc., to the list of approved manufacturers for 19⁴ other parts not included on the licensing agreement but previously supplied to DoD, thus Service & Sales, Inc. was ineligible to receive orders for parts that it had previously supplied. Service & Sales, Inc. supplied 15⁵ of the parts, or 78.9 percent, directly to the Services prior to the consumable item transfers. For example, Service & Sales, Inc. supplied dummy connector plugs (National Stock Number 5935-01-229-5586), a CAI, to the Air Force (San Antonio Air Logistics Center) in 1989 and 4 times to DLA between 1997 and 2001. On an October 2001 order for supplies, Service & Sales, Inc. was identified as an approved source of supply. However, on a November 27, 2001, purchase request for 26 items, Service & Sales, Inc. was no longer listed as an approved source of supply. Consequently, Service & Sales, Inc. was ineligible to receive orders for a part that it had successfully supplied 5 times

⁴ 18 CAIs and 1 noncritical item.

⁵ 14 CAIs and 1 noncritical item.

between 1989 and 2001 (131 parts) to DoD. The technical specialists at DLA could not give specific reasons why Service & Sales, Inc. was removed as an approved source but reinstated the contractor as an approved source and awarded Service & Sales, Inc, an order to supply 31 plugs on June 26, 2003.

Requiring Service & Sales, Inc. to go through complete SAR package reviews to obtain approval for these parts seems to be a bit extensive in light of all that is now known about the contractor's capabilities. Much of the information included in SAR packages relates to the contractor's quality and manufacturing processes, and as such, has already been evaluated by the Government. The Navy conducted a site survey of Service & Sales, Inc.'s facility and provided a favorable assessment of the contractor's quality assurance program and manufacturing capabilities. We do not understand why the Government would want to expend any more resources to reassess the contractor's quality and manufacturing processes before approving Service & Sales, Inc. as a source of supply. To reevaluate Service & Sales, Inc. for the 19 parts that DLA shows Service & Sales, Inc. not approved to supply in this manner would cost \$3,800 (19 x \$200) for DLA to initiate the packages and \$39,600 (33 x \$1,200) for the 33 ESA reviews required, not to mention the cost the contractor would incur to prepare the SAR packages. In fact, the SAR package for one part must be reviewed and approved by 5 different ESAs before Service & Sales, Inc. will be eligible to receive orders to supply the part. We see no the value in performing this level of review for these parts.

The intent was to lighten the DoD regulatory requirements by allowing use of modern industrial manufacturing methods for ensuring quality in critical spare parts. Thus, in light of all that is now known about the manufacturing capabilities of Service & Sales, Inc., DLA, in conjunction with the Service ESAs, should develop and use a streamlined process to approve Service & Sales, Inc. as an alternate source of supply for the 19 previously supplied non-licensed items that DLA shows Service & Sales, Inc. not approved to supply.

Documentation and Notification of Source Removal

DLA failed to document why Service & Sales, Inc. was removed as an approved source and notify the contractor. Section 2319 of title 10 of the United States Code defines a qualification requirement.

Qualification Requirement - a requirement for testing or other quality assurance demonstration that must be completed by an offeror before award of a contract.

Section 2319 also provides procedures for establishing qualification requirements.

(b)(6) ensure that a potential offeror seeking qualification is promptly informed as to whether qualification is attained and, in the event qualification is not attained, is promptly furnished specific information why qualification was not attained.

Federal Acquisition Regulation, Subpart 9.2, “Qualification Requirements,” provides policies and procedures regarding qualification requirements. Section 9.207, “Changes in Status Regarding Qualification Requirements,” states:

The agency shall, however, promptly notify the affected parties if a product or source is removed from a QPL [Qualified Product List], QML [Qualified Manufacturers List], or QBL [Qualified Bidders List], or will no longer be identified as meeting the standards specified for qualification. This notice shall contain specific information why the product or source no longer meets the qualification requirement.

As previously described, technical specialists at DLA were unable to provide specific reasons why Service & Sales, Inc. was removed from the list of approved manufacturers. Further, the technical specialists failed to notify Service & Sales, Inc. that it was no longer considered an approved source. We believe it to be a good business practice to document why a source no longer meets the requirements for approval and to notify the contractor of the change in status. As such, DLA should establish procedures to document why a source is removed from the list of approved manufacturers and notify the source.

Reevaluating Approved Sources

Guidance for Reevaluating Approved Sources. DLA and the Service ESAs did not develop adequate and consistent guidance and procedures for either reevaluating previously approved sources for CSIs and CAIs or addressing source approval requirements for items that were included on licensing agreements with OEMs. While the Navy had limited guidance relating to reevaluating approved sources for CSIs and no guidance relating to reevaluating sources for CAIs, the Air Force had no written guidance that related to reevaluating approved sources for either the CSIs or the CAIs.

Naval Air Systems Command Instruction 4200.25D, “Management of Critical Application Items Including Critical Safety Items,” June 20, 2002, states that alternate sources for CSIs must be reevaluated to ensure they remain capable of delivering satisfactory items if the source has not delivered the item within 3 years of an anticipated solicitation or if concerns regarding product quality exist or the manufacturing location or process has changed. The instruction gives the Navy ESAs authority to waive or relax the necessary steps for reevaluating a source if deemed appropriate. The Navy instruction does not provide any guidance or requirements for reevaluating manufacturers of CAIs or take into consideration manufacturers using actual OEM technical data to manufacture parts versus their own alternate data developed in-house.

Other Complications. Complicating the matter is that multiple ESAs are responsible for the same parts. In those cases, Service & Sales, Inc. must obtain approval from each ESA before Service & Sales, Inc. is allowed to bid on an order to supply that part. Figure 2 shows that to get the 71 previously supplied critical licensed parts that DLA shows Service & Sales, Inc. not approved for reevaluated would require 118 separate reviews by the ESAs.

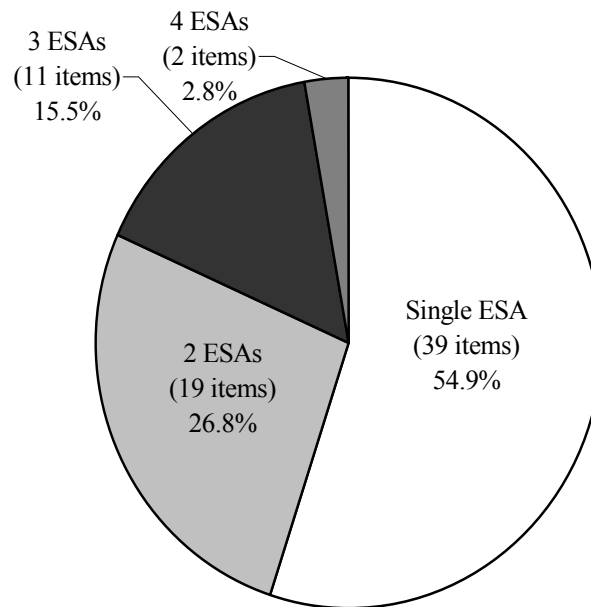


Figure 2. ESA Approvals Required to Reevaluate Parts.

During the audit and based on the factors previously described, we attempted to obtain agreement between the Navy and the Air Force on simplified procedures for reevaluating Service & Sales, Inc. on the 71 critical licensed parts previously supplied for which Service & Sales, Inc. was either improperly removed or never added to the list of approved manufacturers, but were unsuccessful. While the Navy showed flexibility with the reevaluation process for the critical parts and recommended the site survey, the Air Force Materiel Command would settle for nothing less than a complete SAR package review for each part and the corresponding \$1,200 service fee for each item. To reevaluate the 71 parts would cost \$14,200 (71 x \$200) for DLA to initiate the packages and \$141,600 (118 x \$1,200) for the 118 ESA reviews required, not to mention the cost the contractor would incur to prepare the SAR packages.

The manager for the Technical and Quality Policy Division estimated that DLA manages about 9,000 CSIs⁶ and more than 1.2 million CAIs. With multiple ESAs responsible for the same parts and multiple sources approved to manufacture the same parts, we calculate the cost of having only one ESA reevaluate one approved source for the critical items would cost DoD approximately \$1.69 billion. We do not see the benefit of devoting such a magnitude of resources to reevaluating approved sources for CAIs on a one-for-one basis, particularly those with licensing agreements that provide access to OEM data for use in manufacturing the parts and had no significant problems or deficiencies noted with the quality of the parts supplied.

⁶ Figure does not include the Air Force's CSIs.

DLA needs to develop, in conjunction with the Service ESAs, consistent and realistic guidance and procedures for reevaluating sources for CSIs and CAIs and for addressing source approval requirements for items included on licensing agreements with OEMs.

Conclusion

We found no flexibility in the source approval and reevaluation process for Service & Sales, Inc., even though the small business manufacturer had previously supplied the parts to DoD, had a licensing agreement with the OEM that provided access to the technical data needed to manufacture the parts, had successfully passed a site survey the Navy conducted, and had a proven history of supplying quality parts. The inflexible process of evaluating and reevaluating each part exactly the same as an alternate data package, which provides data developed by someone other than the OEM, was unreasonable and neither supports the President's small business agenda nor the DoD goals ensuring that as many as possible alternate quality sources of supply exist to increase competition and, ultimately, reduce support costs.

DLA, in conjunction with the Service ESAs, needs to develop a process for evaluating and reevaluating sources that maintains the integrity of the process and also provides value as well as encourages small business participation to increase competition. The evaluation and reevaluation process should vary with the criticality of the part and consider other factors such as whether the supplier has previously supplied the part, does the supplier have access to OEM technical data, did the supplier successfully pass a site survey, and does the supplier have a history of providing quality parts.

Management Comments on the Finding and Audit Response

Defense Logistics Agency Comments. DLA stated that the report did not address the need to assess the contractor's capability in urging that a streamlined approach be adopted to approve Service & Sales, Inc. to supply licensed items not previously supplied to DoD. DLA also stated that the report did not address the need for the contractor to demonstrate access to the technical data for items not covered by the Honeywell agreement in urging that a streamlined approach be adopted to approve the contractor to supply non-licensed parts not previously supplied to DoD.

Audit Response. The audit never suggested that the measures currently employed to ensure that items are procured only from capable sources be subverted. The audit attempted to apply some common sense to the process in light of all that is known and has been learned through the audit about Service & Sales, Inc. Through the site survey, the Government determined that the licensing agreement grants Service & Sales, Inc. complete access to OEM technical data for the covered items. The Government also determined that Service & Sales, Inc. possessed the ability to manufacture, assemble, and inspect a diverse line of both

critical safety items and critical application items. To apply the entire process to obtain information that is already known and in the possession of the Government did not make sense. Further, we see no value in the Services performing identical assessments of a contractor's ability to manufacture an item to DoD specifications, therefore, we suggested adopting a streamlined process.

Recommendations, Management Comments, and Audit Response

We recommend that the Director, Defense Logistics Agency:

1. Take immediate action to reinstate Service & Sales, Inc. as an approved source for the 82 licensed items previously supplied to DoD.

Defense Logistics Agency Comments. DLA partially concurred, stating that the Navy agreed to have Service & Sales, Inc. reinstated as an approved source for the items that the Navy was listed as the only user. However, the Air Force has agreed to reinstate Service & Sales, Inc. as a source for the items only if there is a current Form 339 and technical data package in the possession of DLA. DLA stated that the Air Force items failing to meet those conditions will go through a simplified process before Service & Sales, Inc. is reinstated as an approved source.

Audit Response. The DLA comments are partially responsive. Although DLA has established procedures to reinstate Service & Sales, Inc. as an approved source for the items that the Navy or the Air Force is listed as the only user, it has not addressed what procedures will be used to approve Service & Sales, Inc. as a source for parts that require the review by multiple Services. We request that DLA provide additional comments on the final report to clarify what steps will be taken to get Service & Sales, Inc. approved as a source for those parts.

2. Develop and use, in conjunction with the Service Engineering Support Activities, a streamlined process that considers licensing agreements with original equipment manufacturers to approve Service & Sales, Inc. as an alternate source of supply for the 171 licensed items not previously supplied to DoD.

Defense Logistics Agency Comments. DLA partially concurred, stating that it will take appropriate action to approve Service & Sales, Inc. as an alternate source for the active items not previously supplied to DoD that are covered under the licensing agreement. The Navy agreed to use a streamlined process to approve Service & Sales, Inc. for the items that the Navy was listed as the only user. The normal process will be used to approve Service & Sales, Inc. as a source for all other items.

3. Develop and use, in conjunction with the Service Engineering Support Activities, a streamlined process to approve Service & Sales, Inc. as an alternate source of supply for the 19 previously supplied items not included on the licensing agreement with Honeywell.

Defense Logistics Agency Comments. DLA partially concurred, stating that it will take the appropriate action to approve Service & Sales, Inc. as an alternate source for the 19 items not covered under the licensing agreement but previously supplied to DoD. The Navy agreed to consider a streamlined process to approve Service & Sales, Inc. as a source for the items that the Navy is listed as the only user. However, the Air Force has agreed to reinstate Service & Sales, Inc. as a source for the items only if there is a current Form 339 and technical data package in the possession of DLA. DLA stated that the Air Force items failing to meet those conditions will go through a simplified process to approve Service & Sales, Inc. as a source.

Audit Response. The DLA comments are partially responsive. Although DLA has established procedures for Service & Sales, Inc. to be approved as a source for the non-licensed items that the Navy or the Air Force is listed as the only user, it has not addressed what procedures will be used to approve Service & Sales, Inc. as a source for parts that require the review by multiple Services. We request that DLA provide additional comments on the final report to clarify what steps will be taken to get Service & Sales, Inc. approved as a source for those parts.

4. Establish procedures that document why an approved source is removed and notify the source.

Defense Logistics Agency Comments. DLA concurred, stating that actions to notify an approved source when they are removed from the item record have been initiated. DLA also suggested that notification be restricted to just the source as “affected parties” is too broad and cannot be defined.

Audit Response. The DLA comments are responsive. We agree that “affected parties” is too broad and have, therefore, revised the recommendation accordingly.

5. Develop, in conjunction with the Service Engineering Support Activities, consistent and realistic guidance and procedures for reevaluating sources for critical safety items and critical application items and for addressing source approval requirements for items included on licensing agreements with original equipment manufacturers.

Defense Logistics Agency Comments. DLA concurred, stating that the Joint Aeronautical Commanders Group Memorandum on Management of Aviation Critical Safety Items adequately addresses the procedures for source reevaluation of critical safety items. DLA, in conjunction with the Service engineering support activities, also stated they have initiated action to develop guidance and procedures to revalidate critical application items and to approve sources for items under acceptable licensing agreements with original equipment manufacturers.

Appendix A. Scope and Methodology

We reviewed the DoD source approval process to determine if the process effectively approved Service & Sales, Inc., as a potential source of supply for spare parts included on a licensing agreement with Honeywell. Specifically, we reviewed applicable guidance related to critical safety parts and source approval. Additionally, by interviewing buyers, inventory managers, and quality assurance and technical specialists at DLA supply centers in Columbus, Philadelphia, and Richmond, we determined how the source approval process works. We interviewed senior equipment specialists, supply analysts, and the head of Source Development at the Naval Inventory Control Point, Philadelphia. We also participated in a site survey, with representatives from the Air Force and Navy ESAs and the Defense Contract Management Agency, at Service & Sales, Inc.'s manufacturing plant in Tempe, Arizona.

Further, we analyzed data on 462 parts that DoD either purchased from Service & Sales, Inc., in the past or were included on the Honeywell Licensing Agreement. Specifically, we focused on 453 parts that had an estimated FY 2002 annual demand of \$1,000 or greater and 9 other parts that we added to our analysis at the request of Service & Sales, Inc. The 462 parts had an estimated annual demand of \$10.2 million. Using data we extracted from the DLA Federal Logistics Information and Standard Automated Materiel Management systems, we identified which of the 462 parts Service & Sales, Inc., was approved to supply. Further, we identified the ESAs with responsibility over the parts. We also used procurement history extracted from Haystack Online for Windows to identify the extent to which Service & Sales, Inc. supplied the parts to DoD in the past. We reviewed the Automated Best Value System ratings and product quality deficiency reports that the DLA supply centers in Columbus, Philadelphia, and Richmond had for Service & Sales, Inc.

We performed this audit from April 2002 through October 2003, in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. To perform the work, we relied on computer-processed data from the Navy, DLA, and commercial sources. We identified approved sources from Federal Logistics Information and Standard Automated Materiel Management systems and determined which items that Service & Sales, Inc. had previously supplied to the DoD from procurement history information obtained from a commercial system (Haystack Online for Windows). We also used data from the DLA Automated Best Value System to assess past contractor performance. The computer-processed data and procurement history data were determined reliable based on a comparison to source data and computer output. We did not find significant errors that would preclude the use of the computer-processed data to meet the audit objectives or that would change the conclusions reached in the report.

GAO High-Risk Area. The GAO has identified several high-risk areas in the DoD. This report provides coverage of the Defense Contract Management area.

Management Control Program Review

DoD Directive 5010.38, “Management Control (MC) Program,” August 26, 1996, and DoD Instruction 5010.40, “Management Control (MC) Program Procedures,” August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of the Review of the Management Control Program. We reviewed the adequacy of DLA and the Service ESAs controls over the DoD source approval process. Specifically, we reviewed the controls for removing and reevaluating approved sources of supply. Because we did not identify a material weakness, we did not assess management’s self-evaluation.

Adequacy of Management Controls. Although not the most effective and efficient to implement, the DLA and Service ESA controls over the DoD source approval process were found to be adequate. Compliance with the controls will provide reasonable assurance that DoD procures spare parts only from sources that are capable of supplying parts to DoD specifications.

Appendix B. Prior Coverage

During the last 5 years, the General Accounting Office has issued two audit reports and the IG DoD has issued two evaluation reports dealing with the DoD source approval process and small business procurement.

GAO

General Accounting Office Report No. GAO-01-119, "Small Business: Trends in Federal Procurement in the 1990s," January 18, 2001

General Accounting Office Report No. NSIAD-98-191, "Defense Acquisition: Rationale for Imposing Domestic Source Restrictions," July 17, 1998

IG DoD

IG DoD Report No. D-2002-090, "Supply Inventory Management: Evaluation of the Defense Supply Center Columbus Qualified Products List and Qualified Manufacturers List Program," May 14, 2002

IG DoD Report No. D-2002-013, "Evaluation Report: The Defense Supply Center Richmond Qualified Products List Program," November 2, 2001

Appendix C. Hotline Allegations

Allegation 1: DLA placed parts for which Service & Sales, Inc. was an approved alternate source or that were contained in its licensing agreement on a sole-source contract with Honeywell, the original manufacturer of the parts.

Audit Results. The allegation was substantiated. DLA placed 21 parts that were contained on Service & Sales, Inc.'s licensing agreement on a sole-source contract with Honeywell. That occurred because the DLA data inaccurately showed each item as a sole source to Honeywell. During the audit, DLA removed from the contract 9 of the 21 parts and will remove the remaining 12 parts once Service & Sales, Inc. receives source approval from the ESA. DLA also updated its database to reflect that Service & Sales, Inc. is an alternate source for the parts and is verifying future additions to the sole-source contract by providing the list of parts to Service & Sales, Inc. for review prior to negotiating with Honeywell.

Allegation 2: DLA inappropriately removed Service & Sales, Inc., as a potential source because it had not supplied the item to DoD in the last 36 months.

Audit Results: The allegation was substantiated. The Naval Air Systems Command and the Naval Inventory Control Point, Philadelphia issued a draft Memorandum of Agreement, "Defense Logistics Agency (DLA) Management of Naval Aviation Critical Safety Items (CSIs) and Defense Supply System Center Richmond (DSCR) Oversight Program," June 3, 2002, to DLA. In the draft memorandum, the Navy directs that DLA buy from only the sources the Navy listed for the parts. Therefore, DLA removed the sources that were not listed by the Navy from its list of qualified manufacturers. Further, the Joint Aeronautical Commanders Group Instruction on the management of CSIs states that alternate sources for CSIs shall be reevaluated to ensure that sources remain capable of delivering satisfactory parts if those sources have not delivered or repaired/overhauled the specific CSI within the last 36 months, or 3 years of an anticipated solicitation. Of the items we reviewed, only 10 were categorized as CSIs. However, DLA incorrectly applied the instruction beyond CSIs to remove alternate sources from the qualified manufacturers list for CAIs. Neither the Joint Aeronautical Commanders Group Instruction, nor the Naval Air Systems Command Instruction, nor the draft memorandum of agreement explicitly granted DLA the authority to remove alternate sources beyond CSIs.

Allegation 3: The source approval data used by DLA was not accurate and data loss occurred during logistics transfers.

Audit Results: The allegation was substantiated. The audit identified instances where the DLA data inaccurately portrayed the sources that Naval Inventory Control Point, Philadelphia had approved to supply an item. Further, DLA officials stated that source approval data was lost when responsibility for parts was transferred from the Services to DLA.

Allegation 4: DLA has no directive or regulation from the ESA that requires it to remove the "approved source" designation, and DLA was not complying with

Federal Acquisition Regulation Part 9, Subpart 207, “Changes in Status Regarding Qualification Requirements.”

Audit results: The allegation was partially substantiated. Both Naval Air Systems Command and Naval Inventory Control Point, Philadelphia directed that DLA remove sources and procure requirements from the sources Navy listed for CSIs. However, DLA removed Service & Sales, Inc. as an alternate source for CAIs, as well. For CSIs, DLA did provide a written explanation for removing source approval in compliance with Federal Acquisition Regulation Part 9, Subpart 207.

Allegation 5: DLA inappropriately removed Service & Sales, Inc., as a source at the request of AeroControlex who purchased a product line from Honeywell.

Audit Results: The allegation was not substantiated. In March 2002, AeroControlex Group purchased the lube and scavenge pump product line from Honeywell. However, 16 parts from the product line sale were covered under the Service & Sales, Inc. licensing agreement with Honeywell. Additionally, the 16 parts are used in more than 1 product application (propulsion applications, gear box applications, and lube and scavenge pump applications). AeroControlex received only the rights to manufacture the 16 parts for lube and scavenge pump applications. The rights of Service & Sales, Inc. under the licensing agreement are for all applications of the 16 parts. According to Honeywell officials, Honeywell and Service & Sales, Inc. should not be removed from any solicitations for the 16 parts. We reviewed the DLA data for the 16 parts in question. No evidence existed that supported the allegation that Service & Sales, Inc. was removed at the request of AeroControlex. According to DLA, Service & Sales, Inc. was an approved source for 6 of the 16 parts in question.

Appendix D. Index of Reviewed Parts

Index D-1. Licensed Parts With Prior Contracts

National		Service & Sales, Inc.		DLA	DLA	Previously Supplied	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Contracts</u>	<u>Number</u>	<u>Center</u>	<u>Approved¹</u>	<u>To Services</u>	<u>For Part</u>
1560010541685	CAI	1996	3	DSCR	Yes	Yes	1
1650001998586	CAI	2003	8	DSCR	Yes	Yes	1
1650003690224	NC	1995	1	DSCR	Yes	No	1
1650004433178	NC	2000	5	DSCR	No	Yes	2
1660003110049	CAI	1999	5	DSCR	Yes	Yes	1
1660003738320	CAI	1997	5	DSCR	Yes	Yes	1
1660004591606	CAI	2003	5	DSCR	Yes	No	1
1660004866302	NC	1996	1	DSCR	No	Yes	1
1660006590784	CAI	1988	1	DSCR	No	Yes	2
1660008874335	CSI	2001	2	DSCR	Yes	No	1
1660009075460	CAI	1992	1	DSCR	No	Yes	1
1660011327201	CAI	2001	4	DSCR	Yes	Yes	1
1680012322938	CAI	1996	3	DSCR	Yes	Yes	1
2805001262626	NC	2002	1	DSCC	No	No	2
2805001750555	NC	1988	3	DSCC	Yes	No	2
2805011490703	CAI	2001	5	DSCC	Yes	No	2
2835000177939	CAI	1991	2	DSCR	Yes	No	1
2835000402951	CAI	2003	2	DSCR	Yes	Yes	2
2835000766514	CAI	2003	4	DSCR	Yes	Yes	3
2835001111475	CAI	1995	4	DSCR	Yes	Yes	1
2835001245508	CAI	2002	5	DSCR	Yes	Yes	1
2835002159559	CAI	1988	2	DSCR	Yes	Yes	3
2835002159579	CAI	2002	6	DSCR	No	Yes	3
2835002251638	CAI	1984	1	DSCR	No	Yes	2
2835002989311	CAI	2002	7	DSCR	Yes	Yes	1
2835003021020	CAI	1998	4	DSCR	Yes	Yes	1
2835003134292	CAI	2003	6	DSCR	Yes	Yes	1
2835003150132	CAI	1990	2	DSCR	No	Yes	1
2835003205625	CAI	1996	6	DSCR	Yes	Yes	1
2835004278915	CAI	1982	1	DSCR	No	Yes	1
2835004945701	CAI	2002	3	DSCR	Yes	Yes	2
2835004945702	CAI	1991	2	DSCR	No	Yes	2
2835004947656	CAI	1982	1	DSCR	No	Yes	2
2835005233057	CAI	1996	3	DSCR	No	Yes	1
2835005560573	NC	1996	2	DSCR	Yes	Yes	1
2835005701692	CAI	1995	2	DSCR	Yes	Yes	4
2835006013206	CAI	1989	2	DSCR	No	Yes	1
2835006074501	CAI	1984	4	DSCR	No	Yes	1
2835006129447	CAI	1992	3	DSCR	Yes	Yes	1

Service & Sales, Inc.							
National		<u>Contracts</u>		DLA	DLA	Previously Supplied	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Last Buy</u>	<u>Number</u>	<u>Center</u>	<u>Approved¹</u>	<u>To Services</u>	<u>For Part</u>
2835006953394	CAI	2002	2	DSCR	Yes	Yes	3
2835007018985	CAI	2001	6	DSCR	Yes	Yes	3
2835007756696	CAI	1986	2	DSCR	No	Yes	2
2835010031392	NC	1990	1	DSCR	Yes	Yes	1
2835010038986	CAI	1995	3	DSCR	No	Yes	1
2835010139156	CAI	1989	1	DSCR	No	Yes	3
2835010191192	CAI	1988	2	DSCR	Yes	Yes	1
2835010370039	CAI	1983	2	DSCR	Yes	Yes	1
2835010371997	CAI	2000	2	DSCR	Yes	No	1
2835010972963	NC	1994	2	DSCR	No	Yes	1
2835011829865	CAI	1995	3	DSCR	Yes	Yes	2
2910000145532	CAI	1997	9	DSCC	Yes	No	4
2910002251676	CAI	2003	8	DSCC	Yes	Yes	1
2910002528053	CAI	1996	2	DSCC	No	No	2
2910002528055	CAI	2002	11	DSCC	Yes	No	1
2910003158305	CAI	2001	11	DSCC	Yes	No	4
2910013486418	NC	1995	1	DSCC	No	No	1
2915004194410	CAI	2002	10	DSCR	Yes	No	2
2920000214946	CAI	1987	1	DSCC	No	No	3
2920004842173	CAI	1987	2	DSCC	No	No	2
2995000160989	CAI	2002	4	DSCR	Yes	No	2
2995001153522	CAI	1989	1	DSCR	No	Yes	1
2995007725864	CAI	1999	2	DSCR	Yes	Yes	1
2995008918864	CAI	1985	2	DSCR	No	Yes	2
2995011903676	CAI	2002	2	DSCR	Yes	Yes	1
3010003374827	CAI	2003	5	DSCC	Yes	No	1
3010005185974	CAI	1988	1	DSCC	No	Yes	1
3010009925492	CAI	1986	3	DSCC	No	No	2
3010012151847	NC	2002	7	DSCC	Yes	No	3
3010013156149	CAI	2002	3	DSCC	Yes	Yes	1
3020004256495	CSI	2002	3	DSCC	No	Yes	2
3020010057900	CAI	1997	2	DSCC	Yes	Yes	1
3040002159542	CSI	2003	4	DSCC	Yes	Yes	3
3040002294077	CAI	2002	8	DSCC	Yes	No	1
3040003363571	CAI	2002	2	DSCC	Yes	No	2
3040007729935	CAI	2002	4	DSCC	Yes	Yes	3
3040010252832	CSI	1999	6	DSCC	Yes	Yes	2
3110003329110	CAI	2003	4	DSCR	Yes	No	1
3110010120359	CAI	1995	2	DSCR	No	Yes	3
3120009163547	NC	1984	2	DSCR	No	Yes	2
3940007310051	NC	2002	6	DSCP	Yes	No	3
3950002369936	CAI	2002	6	DSCC	Yes	No	1
4310000093753	CAI	1991	1	DSCC	Yes	No	2
4310006216339	CAI	1999	1	DSCC	Yes	No	3
4310011789679	CAI	2000	4	DSCC	Yes	No	1

Service & Sales, Inc.							
National		<u>Contracts</u>		DLA	DLA	Previously Supplied	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Last Buy</u>	<u>Number</u>	<u>Center</u>	<u>Approved¹</u>	<u>To Services</u>	<u>For Part</u>
4310011837171	CAI	2001	4	DSCC	Yes	No	1
4320009390503	CAI	2002	7	DSCC	Yes	No	2
4320010982766	CAI	1996	2	DSCC	Yes	No	1
4330000083584	CAI	1997	1	DSCC	Yes	No	3
4330006129445	CAI	2002	6	DSCC	Yes	No	1
4330012724001	CAI	2002	6	DSCC	Yes	No	1
4710001111476	CAI	2002	9	DSCC	Yes	No	1
4710002935257	CAI	1993	2	DSCC	No	Yes	1
4710006044503	CAI	2000	1	DSCC	No	No	3
4710007818720	CAI	2001	3	DSCC	Yes	No	2
4710008303076	CAI	2002	5	DSCC	Yes	No	1
4710009502714	CAI	2001	2	DSCC	Yes	No	2
4710009654883	CAI	2002	2	DSCC	Yes	Yes	3
4710010276236	CAI	2002	3	DSCC	Yes	Yes	1
4710010333349	CAI	1989	3	DSCC	No	Yes	1
4710010344803	CAI	1990	3	DSCC	No	Yes	1
4710010352222	CAI	2000	3	DSCC	Yes	No	1
4720002250573	CAI	1998	2	DSCC	Yes	No	1
4720006249414	CAI	2002	2	DSCC	Yes	No	3
4730000493573	CAI	2001	4	DSCC	No	No	4
4730001106893	CAI	2002	7	DSCC	Yes	Yes	1
4730001115816	CAI	2000	4	DSCC	Yes	Yes	1
4730006597910	CAI	2002	7	DSCC	Yes	No	2
4730007564479	CAI	2002	4	DSCC	No	No	1
4730008552774	CSI	2002	2	DSCC	Yes	No	1
4730008859705	CAI	1993	10	DSCC	Yes	No	4
4730009082529	CAI	2002	2	DSCC	No	No	3
4730012179928	CAI	1996	3	DSCC	Yes	Yes	1
4810000161067	CAI	1999	3	DSCC	Yes	No	1
4810001214704	CAI	1997	4	DSCC	Yes	Yes	1
4810001322031	CAI	1999	2	DSCC	Yes	No	1
4810002042027	CAI	1987	1	DSCC	No	Yes	1
4810003081297	CAI	1988	1	DSCC	Yes	Yes	1
4810003149695	CAI	2002	5	DSCC	Yes	No	1
4810003515520	NC	2001	1	DSCC	No	No	1
4810003548560	CAI	2002	6	DSCC	Yes	Yes	1
4810003646730	NC	2000	1	DSCC	Yes	No	1
4810004688873	CAI	1993	2	DSCC	Yes	Yes	1
4810006523407	CAI	2002	4	DSCC	Yes	No	3
4810008074074	CAI	2002	3	DSCC	Yes	No	2
4810010141908	CSI	2002	2	DSCC	Yes	Yes	2
4810010191593	CAI	2000	4	DSCC	Yes	Yes	3
4810010191658	CAI	2002	5	DSCC	Yes	Yes	1
4810010252903	CAI	2001	3	DSCC	Yes	No	5
4810011123650	CAI	1998	3	DSCC	Yes	No	3

Service & Sales, Inc.							
National		<u>Contracts</u>		DLA	DLA	Previously Supplied	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Last Buy</u>	<u>Number</u>	<u>Center</u>	<u>Approved¹</u>	<u>To Services</u>	<u>For Part</u>
4810012125275	CAI	2002	4	DSCC	Yes	Yes	1
4820000516928	NC	2001	2	DSCC	Yes	Yes	1
4820001233034	CAI	2003	8	DSCC	Yes	Yes	1
4820001233499	CAI	1988	1	DSCC	No	Yes	1
4820002754279	NC	2003	7	DSCC	Yes	Yes	1
4820002950778	CAI	2002	3	DSCC	Yes	No	1
4820003738286	CAI	2002	4	DSCC	Yes	Yes	1
4820004385010	CAI	2001	1	DSCC	Yes	No	3
4820004942879	CAI	1985	1	DSCC	No	Yes	1
4820005314136	CAI	2000	1	DSCC	Yes	No	1
4820006059615	CAI	2001	5	DSCC	Yes	No	2
4820006399685	CSI	2002	5	DSCC	Yes	No	2
4820007889178	CAI	2002	6	DSCC	Yes	No	4
4820008022041	CAI	1995	1	DSCC	Yes	No	3
4820008267192	CSI	1985	1	DSCC	No	No	2
4820008693135	CAI	2002	6	DSCC	Yes	No	2
4820010031390	CAI	2003	9	DSCC	Yes	Yes	1
4820010046585	CAI	2003	16	DSCC	Yes	Yes	1
4820010411366	CAI	2003	4	DSCC	Yes	No	1
4820010412950	CAI	2002	8	DSCC	Yes	No	1
4820010428480	CAI	2001	4	DSCC	Yes	Yes	1
4820012106484	CAI	2001	3	DSCC	Yes	No	2
4820013160450	CAI	2002	2	DSCC	Yes	No	3
5305000090467	CAI	1998	3	DSCP	Yes	No	5
5305004326875	CAI	1992	1	DSCP	Yes	No	3
5305009015079	CAI	1988	1	DSCP	Yes	No	1
5305010351840	CAI	2002	8	DSCP	Yes	No	1
5305010351841	CAI	2002	7	DSCP	Yes	No	1
5306011759274	CAI	1999	2	DSCP	Yes	No	1
5307005458592	CAI	1998	3	DSCP	No	Yes	1
5310001498989	CAI	1992	1	DSCP	No	No	1
5310003709147	CAI	1985	4	DSCP	No	Yes	2
5310004119786	CAI	1988	1	DSCP	No	No	3
5310011251859	CAI	1986	1	DSCP	No	No	2
5310012053458	NC	1995	2	DSCP	No	No	1
5310012151378	CAI	1995	2	DSCP	No	Yes	1
5315001351431	CAI	1994	1	DSCP	No	Yes	1
5315011051659	CAI	1988	1	DSCP	No	Yes	3
5325002442558	CAI	2002	4	DSCP	Yes	No	2
5325003420444	CAI	2002	8	DSCP	Yes	No	3
5325010347583	NC	2000	6	DSCP	Yes	Yes	1
5330001111505	CAI	1984	2	DSCP	No	Yes	1
5330001502475	CAI	1983	1	DSCP	No	No	2
5330003083569	CAI	2000	4	DSCP	Yes	Yes	1
5330003409012	CAI	1984	1	DSCP	No	Yes	1

Service & Sales, Inc.							
National		<u>Contracts</u>		DLA	DLA	Previously Supplied	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Last Buy</u>	<u>Number</u>	<u>Center</u>	<u>Approved¹</u>	<u>To Services</u>	<u>For Part</u>
5330004831952	CAI	1996	4	DSCP	No	Yes	1
5330005546645	CAI	2002	12	DSCP	Yes	Yes	1
5330010187954	CAI	1989	2	DSCP	Yes	Yes	1
5330010348898	CAI	1988	1	DSCP	No	Yes	1
5331002456770	CAI	1985	1	DSCP	No	No	4
5340003174781	CAI	2001	5	DSCP	Yes	No	1
5340007899270	CAI	1995	1	DSCP	No	No	1
5340010228520	CAI	2002	5	DSCP	Yes	No	1
5340012331284	CAI	1997	2	DSCP	Yes	No	1
5342003220731	CAI	1987	2	DSCR	No	Yes	1
5342005664474	CAI	1985	1	DSCR	No	Yes	2
5360000147500	CAI	1990	5	DSCP	Yes	No	4
5360005967486	CAI	2001	5	DSCP	Yes	No	1
5360008544392	CAI	1992	3	DSCP	No	Yes	3
5365002679699	CAI	2003	6	DSCR	Yes	No	3
5365003214749	CAI	1998	1	DSCC	No	No	1
5365003675438	CAI	1992	1	DSCR	No	No	1
5365006640830	CAI	1987	1	DSCR	No	Yes	3
5365006850573	CAI	1987	1	DSCR	No	Yes	2
5365010052583	CAI	2002	7	DSCR	Yes	No	1
5365010149722	CAI	1988	1	DSCR	No	Yes	2
5365010151242	CAI	2003	4	DSCR	Yes	No	1
5365010201407	CAI	1991	1	DSCR	Yes	No	1
5365011173819	CAI	1987	2	DSCP	No	No	1
5365011385385	CAI	1984	1	DSCR	No	No	1
5930010106043	CAI	1986	1	DSCC	No	Yes	1
5930010351769	CAI	2002	9	DSCC	No	Yes	1
5945001109059	CAI	2002	6	DSCC	Yes	Yes	1
5945004351198	CAI	2003	10	DSCC	Yes	Yes	1
5945004618132	CAI	1997	1	DSCC	Yes	No	1
5945010162545	CAI	1992	3	DSCC	No	Yes	1
5970000145589	NC	1981	1	DSCR	No	No	4
5970010937344	NC	1990	2	DSCR	Yes	No	2
5995007078267	CAI	1998	9	DSCR	No	Yes	2
5995009087532	CAI	2002	8	DSCR	Yes	No	1
5995010038973	CAI	1988	5	DSCR	No	Yes	1
5995012692028	CAI	1999	6	DSCR	No	Yes	1
6150004929457	CAI	2002	3	DSCR	Yes	Yes	1
6150007078266	NC	1998	4	DSCR	Yes	No	1
6150007598679	CAI	1993	3	DSCR	No	Yes	1
6150008486925	CAI	1995	3	DSCR	No	No	1
6150010930455	NC	1986	1	DSCR	Yes	Yes	1
6150012007159	CAI	2001	5	DSCR	Yes	Yes	1
6150012070061	CAI	1999	3	DSCR	Yes	No	1
6150012149890	CSI	2001	4	DSCR	Yes	Yes	1

National		Service & Sales, Inc.		DLA	DLA	Previously Supplied	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Contracts</u>	<u>Number</u>	<u>Center</u>	<u>Approved</u> ¹	<u>To Services</u>	<u>For Part</u>
6620012015221	CAI	2002	2	DSCR	Yes	No	2
6645011148044	CAI	1994	2	DSCR	No	No	2
6680005785607	CAI	2002	6	DSCR	Yes	Yes	2
6680010651668	CAI	2003	4	DSCR	Yes	No	1
6680012294755	CAI	2003	6	DSCR	Yes	No	2
6685001789575	CAI	1998	6	DSCR	Yes	Yes	1
6685001811898	CAI	1982	1	DSCR	No	Yes	1
6685005514811	CAI	1986	2	DSCR	No	Yes	3
6685006750060	CAI	1984	1	DSCR	Yes	No	2
6685007227210	NC	1990	1	DSCR	No	No	3
6685007308276	NC	2003	8	DSCR	Yes	No	2
6685007308385	NC	1988	3	DSCR	Yes	Yes	1
6685009348208	CAI	2003	9	DSCR	Yes	No	3
6685010176445	CAI	1980	1	DSCR	Yes	No	1
6685011406604	CAI	2001	7	DSCR	Yes	No	1
6685011608858	NC	1998	2	DSCR	No	No	1
6685011938879	CAI	1988	1	DSCR	No	Yes	1
6685012430302	CAI	2003	4	DSCR	Yes	Yes	1

¹ According to Product Item Descriptions contained in the DLA Standard Automated Materiel Management System Database for Defense Supply Centers Richmond and Philadelphia items and Federal Logistics Information System from Haystacks Online for Windows for Defense Supply Center Columbus items.

CAI = Critical Application Item

CSI = Critical Safety Item

NC = Non-Critical

DSCC = Defense Supply Center Columbus

DSCP = Defense Supply Center Philadelphia

DSCR = Defense Supply Center Richmond

Index D-2. Licensed Parts without Prior Contracts

National		DLA	DLA	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Center</u>	<u>Approved</u> ¹	<u>For Part</u>
1650008069805	CAI	DSCR	No	2
1650009673614	CAI	DSCR	No	2
1660004638846	CAI	DSCR	No	1
1660006704232	CAI	DSCR	No	1
1660008874336	CAI	DSCR	No	1
1660009565033	CAI	DSCR	No	3
1660010613772	CAI	DSCR	No	1
1660011548892	CAI	DSCR	No	3
1660011588519	CAI	DSCR	No	1
1660011691747	NC	DSCR	No	1
1660011721431	CAI	DSCR	Yes	1
1660012122970	CAI	DSCR	No	1
1680010074563	CAI	DSCR	No	1
2805000090428	CAI	DSCC	No	2
2805001597792	CAI	DSCC	No	2
2835002251639	CAI	DSCR	No	3
2835003033536	CAI	DSCR	No	1
2835003121227	CAI	DSCR	No	1
2835003220744	CAI	DSCR	No	1
2835003709131	CAI	DSCR	No	4
2835004325560	CAI	DSCR	No	1
2835004600509	CAI	DSCR	No	1
2835005302344	CAI	DSCR	No	1
2835005464581	NC	DSCR	No	3
2835006074662	CAI	DSCR	No	1
2835006501456	CAI	DSCR	No	3
2835006924223	CAI	DSCR	No	3
2835007525106	CAI	DSCR	No	2
2835007586740	CAI	DSCR	No	2
2835008638508	CAI	DSCR	No	3
2835009089322	CAI	DSCR	No	4
2835010031409	CAI	DSCR	No	1
2835010033550	CSI	DSCR	Yes	4
2835010112876	NC	DSCR	No	2
2835010346942	CAI	DSCR	No	1
2835010743477	CAI	DSCR	Yes	2
2835012153574	CAI	DSCR	No	3
2835012286362	CAI	DSCR	No	2
2835012392706	CAI	DSCR	No	1
2835012692835	CAI	DSCR	No	1
2910000562120	CAI	DSCC	No	4
2910002205539	CAI	DSCC	No	1
2910007194550	CAI	DSCC	No	2

National		DLA	DLA	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Center</u>	<u>Approved¹</u>	<u>For Part</u>
2910007771732	CAI	DSCC	No	4
2910012692847	CAI	DSCC	No	1
2915012921600	CAI	DSCR	Yes	2
2940000514063	CAI	DSCC	Yes	2
2945005549142	CAI	DSCR	No	3
2990012089950	NC	DSCC	No	1
2995004016031	NC	DSCR	No	1
2995004945719	CAI	DSCR	No	3
3020010039124	CAI	DSCC	Yes	1
3040002832224	CAI	DSCC	No	4
3040010218095	CAI	DSCC	No	2
3040010623870	CAI	DSCC	Yes	3
3040011114408	CAI	DSCC	No	2
3040011854178	CAI	DSCC	No	1
3040012200667	NC	DSCC	No	1
3120002796183	CAI	DSCR	Yes	1
4310003646580	CAI	DSCC	No	2
4320014654592	CAI	DSCC	No	1
4330010141896	CAI	DSCC	No	4
4710003019845	CAI	DSCC	Yes	1
4710004367579	CAI	DSCC	No	1
4710004617605	CAI	DSCC	No	1
4710010046587	CAI	DSCC	No	1
4710010057038	CAI	DSCC	No	1
4710011066604	CAI	DSCC	No	3
4710011136590	CAI	DSCC	No	1
4710012458418	CAI	DSCC	No	1
4710012845475	CAI	DSCC	Yes	1
4720002250574	CAI	DSCC	No	1
4730007228451	CAI	DSCC	Yes	2
4730008250481	CAI	DSCC	No	2
4730012286943	CAI	DSCC	No	2
4730013063093	CAI	DSCC	No	1
4810001161294	NC	DSCC	No	2
4810001214524	CAI	DSCC	No	3
4810002700766	CAI	DSCC	No	1
4810005089425	CAI	DSCC	Yes	1
4810007831082	CAI	DSCC	No	2
4810008686554	CAI	DSCC	Yes	3
4810008880600	CAI	DSCC	No	1
4810010126462	CAI	DSCC	No	4
4810010141909	CAI	DSCC	No	2
4810010252902	NC	DSCC	No	2
4810010281906	CAI	DSCC	No	2
4810011088637	CAI	DSCC	No	1
4810011161246	CAI	DSCC	No	1

<u>National</u>		DLA	DLA	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Center</u>	<u>Approved¹</u>	<u>For Part</u>
4810011635206	CAI	DSCC	No	1
4810011667132	CAI	DSCC	No	1
4810012125274	CAI	DSCC	No	1
4810012207434	CAI	DSCC	No	2
4810012491290	CAI	DSCC	No	1
4810012615225	CAI	DSCC	No	2
4810013562737	CAI	DSCC	No	3
4820000090391	CAI	DSCC	No	2
4820000161019	CAI	DSCC	No	1
4820002860716	CAI	DSCC	Yes	1
4820003561042	NC	DSCC	No	1
4820004935039	CAI	DSCC	No	1
4820005314168	CAI	DSCC	No	1
4820007581155	CAI	DSCC	No	3
4820008667985	CAI	DSCC	No	1
4820009990476	CAI	DSCC	No	3
4820010180077	NC	DSCC	No	2
4820010792285	CAI	DSCC	No	2
4820011955209	CAI	DSCC	No	1
4820012056394	CAI	DSCC	No	1
4820012118833	CAI	DSCC	No	1
4820012169329	CAI	DSCC	No	2
4820012977979	CAI	DSCC	No	1
4820013149560	CAI	DSCC	No	2
4820013572433	NC	DSCC	No	1
5305010077873	CAI	DSCP	No	1
5305011596186	CAI	DSCP	No	2
5306004492935	CAI	DSCP	Yes	2
5310001019411	CAI	DSCP	Yes	2
5310006086309	CAI	DSCP	No	3
5310008836977	CAI	DSCP	Yes	3
5310010046964	CAI	DSCP	No	1
5310010164875	CAI	DSCP	No	1
5310010493640	CAI	DSCP	No	2
5310010899202	CAI	DSCP	No	2
5310011744011	CAI	DSCP	No	1
5310011760920	CAI	DSCP	No	1
5315001436372	CAI	DSCP	No	1
5315005498419	CAI	DSCP	No	1
5315010087080	NC	DSCP	No	1
5315012241378	NC	DSCP	No	1
5325002054737	CAI	DSCP	No	3
5325006164946	CAI	DSCP	No	3
5325008055118	NC	DSCP	No	3
5330000016695	NC	DSCP	No	1
5330004730582	CAI	DSCP	No	1

<u>National</u>		DLA	DLA	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Center</u>	<u>Approved¹</u>	<u>For Part</u>
5330008543014	CAI	DSCP	No	2
5330009084349	CAI	DSCP	No	3
5330010287381	CAI	DSCP	No	1
5330010652899	CAI	DSCP	No	1
5330011051880	CAI	DSCP	No	3
5330012713113	CAI	DSCP	No	3
5330013209295	CAI	DSCP	No	2
5330013671524	NC	DSCP	No	1
5331011484783	CAI	DSCP	No	2
5340011084127	CAI	DSCP	No	4
5340012032489	CAI	DSCP	No	4
5340013707670	NC	DSCP	No	1
5360008687484	CAI	DSCP	No	3
5365000192587	CAI	DSCR	Yes	3
5365003190096	CAI	DSCR	No	1
5365003190097	CAI	DSCR	No	1
5365005261974	CAI	DSCR	No	2
5365008941879	CAI	DSCR	No	3
5365010047138	NC	DSCR	No	1
5365010054605	CAI	DSCR	No	1
5365011173818	CAI	DSCR	Yes	1
5365011173820	CAI	DSCR	Yes	1
5365012937958	CAI	DSCR	Yes	1
5365013094398	CAI	DSCR	No	1
5365013101672	CAI	DSCR	Yes	1
5365013369014	NC	DSCR	No	1
5365013989129	CAI	DSCR	No	1
5905010744040	CAI	DSCC	No	1
5905011756049	CAI	DSCC	No	1
5915008462885	CAI	DSCC	No	2
5930011590437	CAI	DSCC	No	3
5930011955181	CAI	DSCC	No	1
5930012111949	CAI	DSCC	No	1
5930012143571	CAI	DSCC	No	1
5930012798996	NC	DSCC	No	2
5945011307253	CAI	DSCC	No	3
5945011954606	NC	DSCC	No	1
5950011278657	CAI	DSCC	No	1
5995007349865	CAI	DSCR	Yes	1
5995008310983	CAI	DSCR	No	3
5995011137016	NC	DSCR	No	1
5995013964222	NC	DSCR	No	1
6115008521438	CAI	DSCR	No	1
6150012070062	CAI	DSCR	No	1
6680001181602	NC	DSCR	No	3
6680002203265	CAI	DSCR	No	1

National		DLA	DLA	ESAs Responsible
<u>Stock Number</u>	<u>Criticality</u>	<u>Center</u>	<u>Approved</u> ¹	<u>For Part</u>
6680008619865	CAI	DSCR	No	3
6680009036747	NC	DSCR	No	1
6680010077245	CAI	DSCR	No	1
6685000657084	CAI	DSCR	No	3
6685003859000	CAI	DSCR	No	1
6685008508591	CAI	DSCR	Yes	1
6685009434813	CAI	DSCR	Yes	2
6685009434815	CAI	DSCR	No	3
6685010176444	CAI	DSCR	No	1
6685011136897	CAI	DSCR	No	2
6685011400166	CAI	DSCR	Yes	1
6685011792777	CAI	DSCR	No	2
6685012088641	CAI	DSCR	No	1
6685013650776	CAI	DSCR	No	2
6695011927409	CAI	DSCR	No	1
6695012957886	CAI	DSCR	No	1

¹ According to Product Item Descriptions contained in the DLA Standard Automated Materiel Management System Database for Defense Supply Centers Richmond and Philadelphia items and Federal Logistics Information System from Haystacks Online for Windows for Defense Supply Center Columbus items.

CAI = Critical Application Item

CSI = Critical Safety Item

NC = Non-Critical

DSCC = Defense Supply Center Columbus

DSCP = Defense Supply Center Philadelphia

DSCR = Defense Supply Center Richmond

Index D-3. Non-Licensed Parts with Prior Contracts

National <u>Stock Number</u>	<u>Criticality</u>	Service & Sales, Inc.		DLA <u>Center</u>	DLA <u>Approved</u> ¹	Previously Supplied <u>To Services</u>	ESAs Responsible <u>For Part</u>
		<u>Last Buy</u>	<u>Number</u>				
1660003715859	CAI	2002	10	DSCR	Yes	Yes	1
1660007071985	CAI	1995	1	DSCR	No	No	1
1660008734285	CAI	2002	3	DSCR	No	No	2
1660009601776	NC	1990	1	DSCR	No	Yes	1
1660012133025	CAI	1997	2	DSCR	No	Yes	1
2835005320362	CAI	1990	2	DSCR	No	Yes	3
2835006044505	CAI	1993	3	DSCR	No	Yes	2
2835006704213	CAI	1995	2	DSCR	Yes	Yes	2
2835006769862	CAI	1990	1	DSCR	No	Yes	2
2835006924246	CAI	1996	2	DSCR	No	No	2
2835008303072	CAI	1997	4	DSCR	Yes	Yes	3
2940001106839	CAI	1982	1	DSCC	No	Yes	1
2940010574301	CAI	1988	1	DSCC	No	Yes	1
2995000158798	CAI	1988	1	DSCR	No	Yes	1
3120000317163	CAI	1989	3	DSCR	No	Yes	3
3120003459496	CAI	2002	3	DSCR	Yes	Yes	2
4710011611379	CAI	1988	1	DSCC	No	No	1
4730003356354	CAI	1985	1	DSCC	No	Yes	4
4810001234370	CAI	1987	1	DSCC	No	Yes	1
4820004568575	CAI	1994	1	DSCC	No	Yes	1
5305004100715	CAI	1999	2	DSCP	No	Yes	1
5315008801995	CAI	1992	1	DSCP	Yes	No	2
5330008502872	CAI	1996	3	DSCP	No	Yes	5
5365003072741	CAI	1988	1	DSCR	Yes	No	1
5365007572190	CAI	1994	2	DSCR	Yes	Yes	1
5365012224201	CAI	1993	2	DSCR	Yes	Yes	1
5935012295586	CAI	2003	4	DSCC	No	Yes	1
5995003293712	NC	2001	1	DSCR	Yes	No	1

¹ According to Product Item Descriptions contained in the DLA Standard Automated Materiel Management System Database for Defense Supply Centers Richmond and Philadelphia items and Federal Logistics Information System from Haystacks Online for Windows for Defense Supply Center Columbus items.

CAI = Critical Application Item

CSI = Critical Safety Item

NC = Non-Critical

DSCC = Defense Supply Center Columbus

DSCP = Defense Supply Center Philadelphia

DSCR = Defense Supply Center Richmond

Appendix E. Naval Inventory Control Point, Philadelphia Site Survey Status Report



DEPARTMENT OF THE NAVY
NAVAL INVENTORY CONTROL POINT
700 ROBBINS AVENUE
PHILADELPHIA PA 19111-5098

5450 CARLISLE PIKE - PO BOX 2020
MECHANICSBURG PA 17055-0788

COM & FTS
DSN & EXT
FAX #
IN REPLY
REFER TO:

27 November 2002

FROM: 072.15

TO: 073

SUBJECT: SERVICE & SALES, INC TEMPE AZ.

1. The subject Site Survey was performed on November 19 & 20 2002 in support of CSI/CAI program.
2. Service & Sales Inc. (SSI) quality system is written to ISO-9002:1994 and AS9000:98. Their Certification of Registration was issued August 17, 2001, by Registrar PRI Warrendale, Pa.
3. Their calibration system is written to ISO-10012-1 (1992).
4. SSI's last external audit was performed on 08/26/02 by Registrar PRI Warrendale, Pa.
5. At the time of our visit the DCMA QAS was present. The QAS has been assigned to this facility for only a few months.
6. The quality portion of the survey was broken into two segments. The first segment dealt with the adequacy of the contractors quality system and written procedures. The second segment dealt with the contractor's demonstrated compliance with stated procedures. SSI's quality manual and written procedures were found to be well written and organized. All applicable elements of ISO-9002 were addressed in their quality manual. The second segment of the survey addressed those elements of the quality system having the greatest impact on product quality. Elements specifically reviewed were; Quality System, Contract Review, Purchasing, Inspection and Testing, Control of Inspection Measuring And Test Equipment, Control of Non-Conforming Product, and Internal Quality Audits.
7. Three minor nonconformances were noted during the survey as follows:
 - a. SSI's Operation Task Instruction (OTC) for calibration intervals does not have specific objective criteria on which to base decisions affecting the choice of intervals of confirmation.
 - b. Job order TBE 86511 traveler indicated operation # 40 started with 160 pieces. Then the next operation # 50 started with 154 pieces. The traveler did not reflect nor had traceability of the 6 pieces that fell out between operation 40 & 50.

-
- c. Job order TBE 92711 called for 80 ea. The inspection sheets used to record the acceptances and rejections were identified as sheet 1 of 1 with part number sequence 1 thru 25. The second inspection sheet was also identified as sheet 1 of 1 with part number sequence 1 thru 25, and the same for the third inspection sheet. This scenario does not allow for positive identification and status of inspection.

8. With regards to the quality assurance portion of the audit, SSI appears to be adequate.

NAVICP-P
Steven C. Brandt
Quality Assurance
215-697-2058

Site Survey
Service & Sales, Inc
1853 E Third Street
Tempe, Arizona. 85281-2991
480-968-9084
19-21 November 2002

Attendee's

Government

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Service & Sales
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Scott Papp	President/Operations
Gary Rivers Jr	Consultant

In accordance with NAVAIR INSTRUCTION 4200.25D dated 20 June 2002, a Site Survey was performed at Service & Sales Inc, (SSI) Tempe Arizona. This survey is performed to assess both Manufacturing and Quality Assurance elements and to ensure that this company is in compliance with all guidelines required to manufacture both Critical Safety and Critical Application Items, (CSI/CAI).

This report was prepared by Robert Hughes, NAVICP Philadelphia, Power and Propulsion Team Leader. 215-697-5994 / DSN 4423-5994 / FAX 215-697-4356 / Robert_Hughes@icpphil.navy.mil

ASSESSMENT ELEMENTS

Production Engineering and Planning:

- a. Contractor Production Planning
- b. Production Control
- c. Production/Manufacturing

Materials and Purchased Parts

- a. Make-or-Buy Criteria
- b. Subcontractor Selection
- c. Material Procurement and controls/Lab Analysis

Industrial Resources

- a. Facilities, Equipment and Tooling
- b. Plant layout
- c. Production Manpower and Control

Quality Assurance:

- a. Vendor Quality History
- b. Vendor Quality Assurance Requirements
- c. Quality Assurance provided by Prime contractor
- d. Manufacturing Data Packages
- e. Material Review Board (MRB) Non-conforming material disposition.

Service and Sales Inc have been in the manufacturing business for 36 years. They are currently staffed with 36 full time employees and operate in a 15,000 square foot facility, with an additional 15,000 square foot expansion capability.

A review of **Production Planning and Production Control** was performed as well qualifying vendors/sources, Purchase Orders, and Scheduling for all new parts. SSI utilizes a "MFG PREPLAN CHECKLIST which includes:

Job Folder, Purchase Order/Contract number, P/N, Due date.
Tooling required, drawings and specifications required
Review of imposed Quality Assurance Requirements
Preplan inspection, inspection methods, gages, fixtures etc
Welding requirements, (if applicable)
Outside process requirements, vendors, NDI requirements
Job number assignment.

SSI also utilizes a "BLUE CHECKLIST" dedicated to contracts for the Government.

Production/Manufacturing Methods and Processes include the following:

Precision Computer Numeric Controlled (CNC) and Conventional Machining
Lapping and ID Line Honing
Brazing and Welding, Precision Induction, Precision Torch, TIG
Precision Tube Bending
Aircraft Structural Bonding
Dynamic Balancing
Valve Seat Impacting and lapping

Assembly and Functional Testing

"Complete" assembly capabilities
High RPM Functional Spin testing
High Temp Gas Turbine Combustor Rig
Load and Pull Testing
Critical Flow testing
High Pressure Hydraulic/Pneumatic Flow Testing
High Volume SCFM / High Temp Testing
Pressure and Vacuum Leak Testing

Inspection

Laser Vision Non-Contact Vector Measuring Machine
Flow Meter Calibration Equipment
Helium Monochromatic Light, 1-10 Helium Light bands for Flatness Certification
Optical Comparitor
Coordinate Measuring Machine
Rockwell hardness tester

Document/Material Storage / Material review Board Documentation/Storage:

All Drawings and manufacturing documents are controlled by the Quality Assurance Department and locked in a controlled environment. Manufacturing data is stored electronically, backed up on a weekly basis and stored off site.

All Non-Conforming Material/MRB, is stored in a locked area away from the production floor. The non-conforming material is tagged with the customer name, contract number, part number, job number and current status-disposition.

Traceability Study/ First Article Inspection:

A Traceability study was performed on two (2) different items:

Part Number 75022, NSN: 00-040-2941, Oil Plunger, CAI
Part Number 3880385-1 NSN: 01-272-4001, Cap, CAI

NAVICP personnel as well as personnel from Hill and Tinker AFB witnessed a complete First Article Inspection of both these items. A 100% Dimensional Inspection was performed along with the complete review of all manufacturing documentation.

The documents reviewed were:

Complete process/Operation Sheets
Inspection Method Sheets
Material Receiving and Inspection Reports
Certification of material
Special process certifications
Drawings and contractual revision levels
Non-Conforming Material and any disposition.
Tooling/ ownership/calibration/storage
Packaging.

All documentation was found to be acceptable. The associated "JOB" numbers were traceable throughout the entire manufacturing process. Job numbers were clearly identified.

All outside vendors were prime approved and validated through use of current NADCAP certifications if applicable.

All material inspection and receiving reports were in order. Metallurgical analysis was performed and provided with the material.

All tooling, fixtures and gages were inspected for calibration conformance.

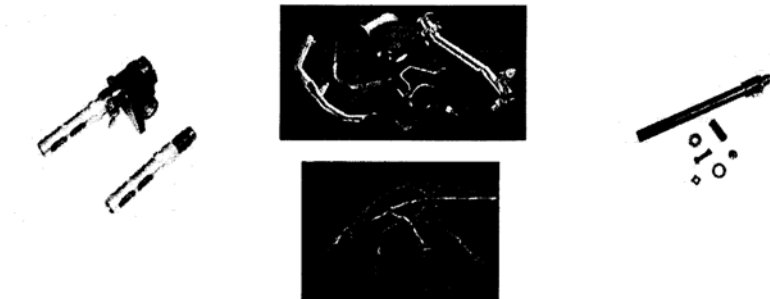
All packaging for these items were performed in-house by SSI

The samples provided by SSI and inspected were both found to be 100% in compliance with the drawing. No dimensions were found to be out of tolerance. A comparison of the teams IMS sheets to SSI IMS sheets were made and there were no discrepancies or out of tolerance conditions found.

FINDINGS/RECOMMENDATIONS:

Service and Sales Inc, has demonstrated that they can manufacture, assemble, and inspect a diverse line of both CSI and CAI items. Their product line includes: Seals, Piston Rings, Tube Assemblies, Diaphragm Assemblies, Solenoid Valves, Cable Assemblies and various Electrical Counters and Shut off Valves. They have demonstrated their ability to manufacture a multiple line of Gas Turbine Accelerator Thermostats as well as Immersion Thermocouples. They also take pride in their ability to perform a complete functional test of these Thermostats and Thermocouples.

There manufacturing process was well documented from Contract award to actual Shipping of the finished product. It is the general consensus of the government team members that Service and sales production and engineering capabilities and quality programs are satisfactory. Service and Sales shows great pride in their product and workmanship.



Robert Hughes, NAVICP Philadelphia, Code 0733.3, 700 Robbins Ave, Philadelphia, Pennsylvania. 19111 / 215-697-5994 /
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Appendix F. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition, Technology, and Logistics
Deputy Under Secretary of Defense (Logistics and Materiel Readiness)
Director, Acquisition Initiatives
Director, Procurement and Acquisition Policy
Under Secretary of Defense (Comptroller)/Chief Financial Officer
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Naval Inspector General
Auditor General, Department of the Navy
Commander, Naval Air Systems Command
Commander, Naval Supply Systems Command
Commanding Officer, Naval Inventory Control Point Philadelphia
Commanding Officer, Naval Inventory Control Point Mechanicsburg

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force
Commander, Air Force Materiel Command
Commander, Ogden Air Logistics Center
Commander, Oklahoma City Air Logistics Center
Commander, Warner Robins Air Logistics Center

Unified Command

Commander, U.S. Joint Forces Command

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Contract Management Agency
Director, Defense Logistics Agency
Commander, Defense Supply Center Columbus
Commander, Defense Supply Center Philadelphia
Commander, Defense Supply Center Richmond

Non-Defense Federal Organizations

Office of Management and Budget
Office of Federal Procurement Policy

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform
House Subcommittee on National Security, Emerging Threats, and International Relations, Committee on Government Reform
House Subcommittee on Technology, Information Policy, Intergovernmental Relations, and the Census, Committee on Government Reform

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FORT BELVOIR, VIRGINIA 22060-6221

IN REPLY
REFER TO J-33

JAN 27 2004

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING,
DEPARTMENT OF DEFENSE

SUBJECT: DoDIG Draft Report on *DoD Source* Approval Process for Service and
Sales, Inc., a Small Business Manufacturer, D2002CH-0095

In response to your memorandum dated November 4, 2003, we have reviewed the draft
report and our comments are attached. Our point of contact is Mr. Anthony Berta, J-3341,
(703) 767-1636 or Anthony.Berta@dla.mil.


DANIEL G. MONGEON
Major General, USA
Director, Defense Logistics Operations

Attachment

Federal Recycling Program



Printed on Recycled Paper

Subject: Draft of a Proposed Report – DOD Source Approval Process for Service & Sales, Inc.,
A Small Business Manufacturer, Project No. D2002CH-0095, Dated November 4, 2003

Defense Logistics Agency (DLA) Comments on the Audit Report

DLA concurs in whole or in part with the five DOD IG recommendations. We would, however, like to offer the following comments on the audit report. Overall, the audit report throughout suggests that removing Service and Sales, Inc. (SSI) as an approved source is the equivalent of denying SSI an opportunity to compete for a contract award for that item (e.g., "...was being denied the opportunity to compete for spare parts orders..." on page i; "...was inappropriately being denied the opportunity to compete..." on page 1; "...was ineligible to receive orders..." on page 9). We strongly object to such a characterization as it simply is not true. In fact, in several instances, SSI did submit a quote on items included in the allegation, were reevaluated, and awarded the contract. The audit report language should be clarified to reflect this.

Also, the executive summary portion of the report only addresses the first allegation in Appendix C. Most of the following audit report and recommendations address the improper removal of SSI as an approved source (the second and third allegations) and the requirements of the source approval process for a licensee, yet the first allegation summarized in Appendix C only deals with 21 items that were placed on a sole source contract prior to DLA learning of the terms of SSI's licensing agreement with Honeywell. (We note that unlike past audit investigations, we did not receive a copy of the actual hotline complaint and therefore must rely on Appendix C.) Secondly, although this licensing agreement has been substantiated, the DOD IG has failed to mention up front that neither DLA nor the Services were made aware of this agreement until after SSI had filed their complaint with the DOD IG. We believe that a sentence should be added to the executive summary in the fourth paragraph stating that in November 2002 DLA and the Service Engineering Support Activities (ESA) first learned of the specific terms of the licensing agreement. As written, the reader might incorrectly assume that the terms of the agreement were known to the Government since some time after the 1992 lawsuit.

DLA recognizes that both the contractor's access to technical data and an assessment of the contractor's capability are important to the ESAs in approving alternate sources. In breaking down the categories of SSI items, the IG categorizes the items in three categories: (1) items previously supplied to DOD; (2) items not previously supplied to DOD; and (3) items not included on the licensing agreement. In urging that a streamlined process be adopted for the second category, the report relies on SSI's licensing agreement which provides availability of technical data and ignores the need for the assessment of the contractor's capability to produce those items for DOD. In urging a streamlined process be adopted for the third category, the report relies on the assessment of the contractor's capability and ignores the need for the contractor to demonstrate access to the technical data, since it is not covered by the Honeywell agreement.

Finally, DLA notes the repeated mention in the report of Public Law 100-456, Section 805, which established the requirements (10 USC, Section 2383) for qualifying the suppliers of parts that are critical to the operation of aircraft and ships, and Public Law 104-106, Section 803, which repealed Section 2383. However, the report fails to mention the recently enacted Public Law 108-136, Section 802, "Quality Control in Procurement of Aviation Critical Safety Items and Related Services," which, like the former 10 U.S.C. 2383, requires the DOD prescribe regulations for a quality control policy for aviation critical safety items spare parts. In any event, it is unclear why

the audit report is citing these laws on SSI's complaint about its improper removal as an approved source since neither of these laws apply.

On the editorial side, the titling "Source Approval Process for Small Business Manufacturers" on page 4 seems misplaced, as the following paragraphs reflect the audit findings.

DLA Comments on the Recommendations

Recommendation 1. Take immediate action to reinstate Service & Sales, Inc. as an approved source for the 82 licensed items previously supplied to DOD.

DLA Comments

Partially Concur. DLA will take appropriate action necessary to reinstate SSI for the 82 licensed items previously supplied to DOD.

Navy Items – The Navy ESA has agreed to allow DLA to reinstate SSI as a source for those items that list Navy as the only user. DLA will take action to reinstate SSI as a source for these items and follow up with a Form 339, Request for Engineering Support, to the Navy ESA to ensure proper quality assurance provisions are included on the National Stock Number (NSN) at time of purchase.

Estimated completion date (ECD) for Navy items is April 30, 2004.

Air Force Items – The Air Force has agreed to reinstate these items only if (1) a current Form 339 is in DLA's possession from the cognizant Air Force ESA, indicating that SSI has been approved as a supplier; and (2) there is a current Technical Data Package (TDP) at DLA for these items. If either one of these conditions does not exist for the above items, then those items will go through a "Simplified Approval Process" as described in Attachment 1.

The ECD for Air Force items is July 30, 2004.

Recommendation 2. Develop and use, in conjunction with the Service Engineering Support Activities, a streamlined process that considers licensing agreements with original equipment manufacturers to approve Service & Sales, Inc. as an alternate source of supply for the 171 licensed items not previously supplied to DOD.

DLA Comments

Partially Concur. DLA will take appropriate action for the approval of SSI as an alternate source for the active items covered under the licensing agreement and not previously supplied to DOD. DLA will follow the source approval guidance for critical items provided by the approving ESA authority and Joint Instruction DLAI 3200.1. Due to workload restraints, DLA will prioritize the request for source approval, based on the annual contract activity and the dollar value associated with each NSN.

Navy Items – The Navy ESA has tentatively agreed to affect a streamlined Form 339 process for the approval of SSI as a source for those items that list Navy as a user. Details on this process have not been finalized with the Navy at this time. A meeting with Navy will be held to finalize this process.

ECD for Navy items is September 30, 2004.

Air Force Items – The Air Force has not agreed to a streamlined process for source approval of the 171 licensed items not previously supplied to DOD. The Air Force response to this request is as follows: “The assertion that the existence of a licensing agreement between SSI and Honeywell makes them a ‘qualified supplier’ is insufficient. The licensing agreement may be a good indicator of SSI’s capability to make Critical Safety and Critical Application Items (CSIs and CAIs) but the fact is that none of these parts have been supplied to DOD. For these items, the Air Force would require a complete Source Approval Request (SAR) package for review by the respective ESA at each Air Force Center.”

ECD for Air Force items is December 31, 2004.

Recommendation 3. Develop and use, in conjunction with the Service Engineering Support Activity, a streamlined process to approve Service & Sales, Inc. as an alternate source of supply for the 19 previously supplied items not included on the licensing agreement with Honeywell.

DLA Comments

Partially Concur. DLA will take the appropriate action for the approval of SSI as an alternate source for the 19 items not covered under the licensing agreement but previously supplied to DOD. DLA will follow the source approval guidance for critical items provided by the approving ESA authority and Joint Instruction, DLAI 3200.1. Due to workload restraints, DLA will prioritize the request for source approval, based on the annual contract activity and dollar value associated with each NSN.

Navy Items – The Navy ESA has tentatively agreed to discuss a possible streamlined process for the approval of SSI as a source for those items that list Navy as a user. Details on this process have not been discussed with the Navy. A meeting with Navy will be held to discuss an acceptable process for source approval.

ECD for Navy items is September 30, 2004.

Air Force Items – The Air Force has agreed to reinstate these items only if (1) a current Form 339 is in DLA’s possession from the cognizant Air Force ESA, indicating that SSI has been approved as supplier; and (2) there is a current Technical Data Package (TDP) at DLA for these items. If either one of these conditions does not exist for the above items, then those items will go through a “Simplified Approval Process” as described in Attachment 1.

ECD for Air Force items is December 31, 2004.

Recommendation 4. Establish procedures that document why an approved source is removed and notify the affected parties, including the contractor.

DLA Comments

Concur. DLA has initiated action to develop a procedure to notify an approved source when they are removed from the DLA item record. Suggest that this recommendation be rewritten as follows: "Establish procedures that document why an approved source is removed and notify that source." The reason is that "affected parties" is too broad and can not be defined.

ECD is October 29, 2004.

Recommendation 5. Develop, in conjunction with the Service Engineering Support Activities, consistent and realistic guidance and procedures for reevaluating sources for critical safety items and critical application items and for addressing source approval requirements for items included on licensing agreements with original equipment manufacturers.

DLA Comments

Concur. The Joint Aeronautical Commanders Group (JACG) Memorandum on Management of Aviation Critical Safety Items (CSI), dated 28 August 2002, adequately addresses the procedures for source reevaluation of CSIs. DLA and the Service ESAs have initiated action to develop guidance and procedures for the reevaluation of CAIs.

ECD for reevaluation policy of CAIs is December 31, 2004.

DLA, in conjunction with the Service ESAs, will define the requirements for source approval under acceptable licensing agreements with original equipment manufacturers.

ECD for source approval requirements of licensing agreements is December 31, 2004.

Revised
Pages 11, 15

Air Force Simplified Approval Process

1. Under a simplified approval process, SSI would be considered for source approval by submitting the following data to the appropriate Defense Supply Center (DSC): a cover letter, item drawings, purchase orders and shipping documents, Process Operations Sheets, and Inspection Method Sheets.
2. If SSI sends this data to DLA via e-mail, DLA can then generate a DLA Form 339 for each item in the Engineering Support Activity (ESA) automated system and electronically attach the SSI data.
3. Prior to DLA sending a DLA Form 339, Request for Engineering Support, appropriate research of the item in question should be accomplished by DLA to determine if the action is required.
4. DLA should provide the following with the DLA Form 339: associated weapon system application/next higher assembly information, date of last contract award and number of items involved, and the Product Quality Deficiency Report (PQDR) history on each item.
5. It must be understood that if the information submitted by SSI under the simplified approval process is not adequate to make a determination, the ESA would have to return the Form 339, using Block 18 (Additional Information Required from Initiator), and SSI would be required to provide the additional information.

Team Members

The Contract Management Directorate, Office of the Deputy Inspector General for Auditing of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense who contributed to the report are listed below.

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